Catherine Clifford, Staff Writer

A move to rein in the "swipe fees" retailers pay when shoppers use plastic is poised for adoption when Congress takes up the final version of its sweeping Wall Street reform bill.

The Senate and House each passed different reform bills, and members of the two chambers have been working in conference since last week to meld their bills into one. The provision cracking down on interchange fees, levied by networks like Visa (V, Fortune 500) and MasterCard (MA, Fortune 500) on all the payments they process, was a surprise addition to the Senate bill.

Banks and card networks pushed hard to kill it off, but late Tuesday, the House adopted a compromise version offered by the provision's sponsor, Senator Richard Durbin, D-Ill. The revised wording is now part of the financial regulation bill that Congress aims to get on President Obama's desk by July 4.

"Year after year, the credit card industry extracts billions of dollars from small businesses around the country," Rep. Peter Welch, D-Vt., said in support of the compromise legislation. "Using their monopoly power, Visa and MasterCard run up prices every time a credit or debit card is swiped, leaving small businesses and consumers to pay the price."

Interchange fees, also called "swipe fees," typically eat up 1% to 3% of each debit or credit card transaction. A portion of that fee goes to network operators like Visa, while the rest goes to the financial institution that issued the card.
0:00 /1:49How to pay down credit card debt

U.S. merchants paid interchange fees of around $62 billion on sales of $3.7 trillion worth of goods and services in 2009, according to industry trade publication The Nilson Report.

The financial reform bill gives the Federal Reserve authority to cap the fees and requires that they be "reasonable and proportional to the actual cost incurred. Analysts expect that change to knock fees down to less than half of their current rates.

The legislation targets only debit-card fees -- credit-card swipe fees would remain unregulated. But debit transactions make up a big chunk of the retail economy: Of last year's $62 billion in fees, almost $20 billion came from Visa and MasterCard debit cards, The Nilson Report estimates.

What changed, what didn't: The compromise hammered out Tuesday maintained the most important piece of the original provision, the requirement that fees be regulated and reasonable.

But a second key component was stripped out. The Senate version of the bill required that merchants be allowed to offer a discount to customers who pay with cards that carry lower transaction fees. Right now, merchants are obligated to accept all debit or credit cards on the same terms -- a mandate retailers have fought against for years.

"That would have actually made those companies compete on the basis of their fees, which they don't today," said Doug Kantor, counsel to the Merchants Payment Coalition, a group of retailers fighting credit and debit card fees they view as exorbitant.

The compromise legislation offers merchants a different break in exchange: It lets them choose which network to use to process their transactions. Flip over your debit card and you'll see logos for several different debit networks, like Pulse and STAR. Exclusive contracts currently prevent retailers for shopping around for the lowest fees.

"In recent years, Visa in particular has been very aggressive in entering into exclusive arrangements with banks or pressing banks into exclusivity agreements," Kantor said.

That, in turn, drives up overhead costs for retailers and shelf prices for their buyers, merchants say.

"You have to allow the merchant some choice about who they use so that it drives some competition to be less expensive," Kantor said. "Otherwise you don't have the benefit of the market system in our economy."

The ability to pick your processor is a good first step, said Molly Brogan, a spokeswoman for the National Small Business Association.

"It infuses some modicum of competition and transparency in a system that's been void of both," she said.

"The conference committee's swipe-fee compromise is not ideal," NSBA President Todd McCracken said in a prepared statement. "But at the end of the day, we'd rather take some steps forward than watch the anti-competitive interests of large banks win out over small business yet again."